CHAPTER 4: PAYMENT SUBSIDIES AND INCOME DETERMINATIONS

4.1 INTRODUCTION

The Agency uses payment subsidies to enhance borrower repayment ability for Section 502 loans. Many borrowers receive a payment subsidy at the time the loan is initially made and continue to receive it throughout the life of the loan. When a borrower begins to receive payment subsidy at the time the loan is made, the initial determination of the amount of payment subsidy for which the borrower qualifies is determined by the Field Office.

The Centralized Servicing Center (CSC) is responsible for initiating payment subsidies for qualified borrowers not currently receiving payment subsidies and periodic reviews of borrowers already receiving payment subsidies.

Section 1 of this chapter describes policies and procedures related to the approval and renewal of payment subsidies. Section 2 provides detailed guidance on calculating annual and adjusted income, which are used to calculate the payment subsidies.

SECTION 1: PAYMENT SUBSIDIES *[7 CFR 3550.68]*

4.2 AN OVERVIEW OF PAYMENT SUBSIDIES

Payment subsidies are available only for Section 502 loans. The amount of subsidy is based upon the borrower's income. FASTeller calculates the borrower's payment subsidy. The sample calculations provided in this section are intended to help the Servicer understand how the calculation works so that the Servicer can explain the calculations to borrowers.

A. Two Types of Subsidy

1. Interest Credit

A borrower who initially received subsidy in the form of interest credit can continue to do so as long as the borrower remains eligible and continuously receives interest credit

assistance. If the interest credit agreement expires but the borrower was continuously eligible for subsidy the borrower may continue to receive interest credit assistance provided the agreement is renewed within 6 months from the expiration date.

2. Payment Assistance

All other eligible borrowers will receive payment assistance. This includes: borrowers who receive new initial loans; borrowers obtaining subsequent loans who qualify for payment subsidy, but who are not currently receiving interest credit; and borrowers who assume loans under new rates and terms. Borrowers who cease to receive interest credit will receive payment assistance if they subsequently begin to receive payment subsidies.

B. Borrower Eligibility

1. Income Eligibility

Borrowers who obtain loans on nonprogram terms are not eligible for payment subsidies. To be eligible at the time of origination, a borrower must be income-eligible for a Section 502 loan -- that is, have adjusted income that does not exceed the applicable low-income limit at the time of loan approval and the applicable moderate-income limit at the time of loan closing.

To be eligible during the term of the loan, a borrower not already on payment subsidy must have adjusted income at or below the applicable low-income limit. Once a borrower begins to receive a payment subsidy, the borrower may continue to do so until the applicable formula no longer provides such assistance.

2. Occupancy Requirement

The borrower must personally occupy the dwelling in order to receive a payment subsidy unless, during the term of the loan, the Agency determines that the dwelling is uninhabitable or that the borrower may be absent temporarily from the property for reasons acceptable to the Agency, such as seasonal or migratory employment, military call ups, or hospitalization. In the case of a deceased borrower, subsidy may continue for 6 months or until assumption of the loan is completed, whichever occurs sooner. The subsidy must be based upon income of the current occupants.

3. Nonprogram, Above-Moderate and Pre-August 1, 1968, Borrowers

Payment subsidies cannot be provided in conjunction with loans made before August 1, 1968, or with loans made on above-moderate or nonprogram terms. Some of these borrowers may be eligible to refinance the loan in order to receive payment assistance, as described in Paragraph 5.3 A.

C. Loan Requirements

For borrowers to be eligible for payment subsidies, initial loans and subsequent loans made in conjunction with a new rates and terms assumption must have a term of at least 25 years. Borrowers are eligible to receive payment subsidies for subsequent loans with less than a 25 year term that are ***not*** made in conjunction with an assumption only if the borrower's initial loan had an initial term of at least 25 years.

D. Borrower Reporting Requirements

Each year borrowers receiving payment subsidies are required to report on household income, expenses, and composition. This enables the Servicer to determine whether the borrower should continue to receive a subsidy and the amount of subsidy to be provided.

Borrowers who receive payment subsidies must notify the Agency whenever an adult member of the household changes or obtains employment, the household composition changes, or if income increases by more than 10 percent. A borrower whose income decreases may report the change and ask the Servicer to determine whether the decrease entitles the borrower to additional payment subsidies.

The Servicer may establish an alternative review period to accommodate specific circumstances including the three circumstances described below.

1. Self-Employed Borrowers

For a self-employed borrower, the initial payment assistance agreement should run from the effective date of the income determination to 3 months after the end of the borrower's business fiscal year. This will allow subsequent agreements to coincide with the borrower's business fiscal year, with a 3-month overlap to provide sufficient time for the borrower to supply verification of the previous year's income. However, the review period may not exceed 12 months.

2. Unemployed Borrowers

For a borrower receiving unemployment benefits, the agreement will be effective for the period during which the borrower will receive unemployment benefits, or, if the period is unknown, no longer than 6 months.

3. Annual Payment Borrowers

For a borrower currently paying an annual installment who receives a subsequent loan, the initial payment assistance agreement, including assistance for the subsequent loan, will remain in effect until the next January 1st.

E. Recapture Requirement

Borrowers are required to repay payment subsidy amounts subject to recapture when the title to the property transfers or the borrower is no longer living in the dwelling, unless the borrower ceases to occupy the property for a reason that is acceptable to the Agency. Whenever the borrower qualifies for payment subsidy for the first time, the borrower must sign *Form RD 3550-12*. See Section 5 of Chapter 2 for a full discussion of the recapture requirements.

4.3 CALCULATING PAYMENT ASSISTANCE

The amount of payment assistance is the difference between the installment due at the promissory note rate and the amount the borrower must pay, based upon income. Borrowers receiving payment assistance must pay the ***greater of***:

- The loan payment amortized at the equivalent interest rate (EIR) applicable to the borrower; or
- Except for leveraged loans, a floor payment calculated as a percentage of adjusted income, less the cost of taxes and insurance.

Exhibit 4-1 provides an example of this calculation.

A. Calculating the Payment at the Equivalent Interest Rate

This payment uses the borrower's loan amount, the term of the loan, and an equivalent interest rate for which the borrower qualifies based upon income. Exhibit 4-2 provides the equivalent interest rates to be used.

Exhibit 4-1

Sample Payment Assistance Calculation
(These calculations are done by FASTeller)

The Jones family has been approved for a loan with a principal amount of $60,000.

The following financial information is needed to calculate the payment assistance:

Loan term: 33 years   Note rate: 7%   Median income: $30,000

$19,000	Adjusted income
$90	Monthly taxes and insurance
64%	Percent of applicable median ($19,000 ÷ $30,000)

(1) Calculate the Payment at the Note Rate

$389	Payment at the note rate: (Amortized amount for $60,000 @ 7% for 33 years)

(2) Calculate the Floor Payment for PI*

24%	Floor payment percentage for borrower @ 64% of median income
380	Floor payment for PITI* ($19,000 ÷ 12 months x 0.24)
$290	Floor payment for PI ($380 - $90 for taxes and insurance)

(3) Calculate the Payment at the EIR*

4% EIR for borrower at 64% of median

$273	Payment at the EIR (amortized amount for $60,000 @ 4% for 33 years)

(4) Compute Monthly Payment Assistance

$389	Payment at the note rate
-$290	Required payment is the greater of (2) or (3)
$ 99	Monthly payment assistance

*PI =	Principal and interest
PITI =	Principal, interest, taxes, and insurance
EIR =	Equivalent Interest Rate

Exhibit 4-2 Equivalent Interest Rates	
Use the equivalent interest rate for the income range applicable to the borrower's adjusted annual income.	
Median Income Range	**Equivalent Interest Rate***
0%-50%	1.0%
50.01%-55%	2.0%
55.01%-60%	3.0%
60.01%-65%	4.0%
65.01%-70%	5.0%
70.01%-75%	6.0%
75.01%-80%	6.5%
80.01%-90%	7.5%
90.01-100%	8.5%
100.01%-110%	9.0%
110.01%-Greater	9.5%
*EIR can never exceed the note rate.	

A. Calculating the Floor Payment

Borrowers, except for those with leveraged loans, must pay a minimum for principal, interest, taxes, and insurance (PITI) of:

- 22 percent of adjusted income for very low-income borrowers;
- 24 percent of adjusted income for low-income borrowers with adjusted incomes at or below 65 percent of the applicable median income; or
- 26 percent of adjusted income for borrowers with adjusted income above 65 percent of the applicable median income.

B. Exceptions to the Equivalent Interest Rate

In rare circumstances, the Administrator may authorize an additional 1 percent reduction in the EIR at loan origination if all of the following requirements are met:

- The reduced EIR will not be less than 1 percent;

- The security property is in a Department of Housing and Urban Development (HUD) high-cost area; and

- The borrower will be unable to acquire adequate housing unless the additional subsidy is authorized.

This EIR reduction may be continued in subsequent years if the borrower remains unable to repay the loan without this exception. The Servicer conducts a financial analysis to make this determination.

4.4 CALCULATING INTEREST CREDIT

For eligible borrowers, the amount of interest credit granted is the difference between the amount due at the note rate and a minimum required borrower payment. Borrowers receiving interest credit must pay at least the ***greater of***:

- 20 percent of adjusted income, less the cost of taxes and insurance; or

- A loan payment reflecting the loan amount amortized at an interest rate of 1 percent.

Exhibit 4-3 provides an example of this calculation.

4.5 PROVIDING PAYMENT ASSISTANCE TO BORROWERS NOT CURRENTLY RECEIVING A PAYMENT SUBSIDY

Borrowers not currently receiving payment subsidies generally become eligible for payment assistance as a result of a decrease in income. Borrowers may request assistance, or the Servicer may recognize that the borrower is now eligible for payment assistance as a result of interactions with the borrower.

A. Eligibility

To be eligible for payment assistance a borrower not currently receiving a payment subsidy must have income at or below the applicable low-income limit and personally occupy the dwelling. Payment assistance cannot be provided in conjunction with loans funded before August 1, 1968, or with loans made on nonprogram or above-moderate terms. However, such loans may be refinanced as a new loan to enable the borrower to obtain payment assistance, as described in Paragraph 5.3 A.

Exhibit 4-3

Sample Interest Credit Calculation
(These calculations are done by FASTeller)

The Joneses have received interest credit on their initial $60,000 loan since it was approved.

The following financial information is needed to calculate the payment assistance:

Loan term: 33 years Note rate: 7% Median income: $30,000

$19,000 Adjusted annual income $90 Monthly taxes and insurance
64% Percent of median ($19,000 ÷ $30,000)

(1) Calculate the Annual Payment at the Note Rate

$389 Monthly payment at the note rate:
(Amortized amount for $60,000 @ 7% for 33 years)

(2) Calculate the Minimum Payment for Principal and Interest

$317 Minimum amount for PITI* ($19,000 ÷ 12 months x 0.20)
$227 Minimum amount for PI* ($317 - $90)

(3) Calculate the Required Payment at 1 Percent

$178 Monthly payment (amortized amount for $60,000 @ 1% for 33 years)

(4) Compute Monthly Interest Credit

$389	Monthly payment at the note rate
-$227	Required payment is the greater of (2) or (3)
$162	Monthly Interest Credit

* PITI = Principal, interest, taxes and insurance.
PI = Principal and interest.

B. Processing Requests for Payment Assistance

To determine eligibility, the Servicer sends the borrower *Form RD 3550-21*.

Based on the information provided by the borrower, the Servicer uses FASTeller to compute the amount of payment assistance and, if the borrower is eligible, generates *Form RD 1944-14, Payment Assistance/Deferred Mortgage Assistance Agreement*. The Servicer notifies eligible borrowers by letter. The letter should include *Form RD 1944-14* and, if the borrower has not previously signed a subsidy repayment agreement *Form RD 3550-12*. This agreement requires the borrower to repay the subsidy when the borrower sells the property, refinances the loan, moves out of the property, or pays the loan in full.

C. Effective Date of Payment Assistance

New payment subsidy is made effective on the due date following receipt and processing of executed documents from the borrower.

4.6 ANNUAL AND INTERIM REVIEWS OF PAYMENT SUBSIDIES

A. Annual Reviews

Subsidy agreements are effective for a period not exceeding 24 months. For agreements that exceed 12 months an annual review is conducted by CSC to determine the borrower's continued eligibility for subsidy.

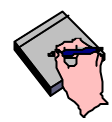
Before the anniversary date of an existing subsidy agreement for a term exceeding 12 months, CSC will initiate an annual review. To complete this review the Servicer notifies the borrower that the current agreement will remain unchanged and continued for another 12 months unless there has been a 10 percent change in income. If the borrower notifies CSC of a change, the Servicer records the notification and requests verification of the new information provided by the borrower. Approximately 90 days before the expiration of the current subsidy agreement, CSC will initiate a more extensive annual review process. Renewal processing should be completed in time for a new payment subsidy amount to be effective on the expiration date of the borrower's current subsidy agreement.

The FASTeller system will identify cases due for review. To complete the renewal process the Servicer sends each borrower Form RD 3550-21, "Payment Subsidy Renewal Certificate," to request information on household income, expenses, and composition. When the borrower returns the information, the Servicer verifies the information provided as described in Paragraph 4.8 B.

When all necessary verifications are complete, the Servicer uses FASTeller to compute the amount of payment subsidy and, if the borrower is eligible, notifies the borrower by letter of the required monthly payment.

B. Interim Reviews

Borrowers who receive payment subsidies must notify the Agency whenever an adult member of the household changes or obtains employment, the household composition changes, or if income increases by more than 10 percent. A borrower whose income decreases may report the change and ask CSC to determine whether the decrease entitles the borrower to additional payment subsidy. A change in payment subsidy will not be made unless the scheduled principal and interest payment would change by at least 10 percent as a result of the change in household circumstances.



Whenever a borrower notifies CSC of a change, the Servicer records the notification and requests verification of the new information provided by the borrower, as necessary. The Servicer:

- Uses FASTeller to recompute the borrower's payment subsidy and to generate the appropriate subsidy agreement.
- Notifies the borrower of any change in the required monthly payment.
- Makes increases in the required monthly payment effective after <u>30 days</u> notice to the borrower. Decreases in the required monthly payment should be made effective with the next payment due.

The borrower's next annual review is typically scheduled for 12 months after the effective date of the change in payments.

C. IN-DEPTH REVIEWS

CSC will conduct in-depth reviews of borrower income on a random basis of at least 1 percent of renewals completed for the purpose of quality control. In addition, an in-depth review will be conducted where a borrower's Form RD 3550-21 appears to be inaccurate or the Agency receives information which conflicts with the information provided by the borrower. Cases where unauthorized assistance has been reported may also be subject to review. Attachment 4-E provides information that may be used in conducting verifications of borrower income.

D. TRUST LOAN BORROWERS

If payment subsidy is processed to a borrower who also has a Trust loan, the Trust loan servicer should be notified to assure that the combined calculations are correct and to avoid possible duplication of efforts for the borrower, RHS, and the Trust.

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SECTION 2: EVALUATING BORROWER INCOME

[7 CFR 3550.53(a) and (g), 7 CFR 3550.54]

4.7 Overview

Servicers use income information to help determine whether a borrower is eligible for payment subsidy and the amount of that subsidy. This section provides guidance for verifying and calculating income for each of these purposes.

A. Key Concepts for Income Determinations

1. Income Definitions

Three income definitions are used by the Agency. Whenever income determinations are made, it is essential that the Servicer use the correct income definition and consider income from the appropriate household members.

Repayment income is used by Loan Originators in Field Offices to determine whether the borrower will be able to repay a loan. Repayment income is used during servicing only to determine if a borrower is eligible for a moratorium as described in Paragraph 5.5. Only the income of parties to the note is considered when calculating repayment income.

To determine whether a borrower is income-eligible for payment subsidies, the Servicer must use ***adjusted income***. Adjusted income is calculated in two steps. First, the ***annual income*** of all household members is calculated. Then, certain household deductions for which the family may qualify are subtracted from annual income to compute adjusted income.

2. Whose Income To Count

For repayment income, only the income of household members who are parties to the note are counted. For adjusted income, the income of all household members must be considered. Foster children and foster adults living in the household are not considered household members. The earned income of minors is not counted, although earned income from a spouse who is a minor or unearned income attributable to a minor, such as child support, Aid to Families with Dependent Children (AFDC), and other benefits paid on behalf of a minor are counted. Income received by live-in aides also is not counted, regardless of whether the live-in aide is paid by the family or a social service program (family members cannot be considered live-in aides unless they are being paid by a health agency and have an address, other than a post office box, elsewhere).

3. Income Limits

Some program rules differ according to the income of the borrower. Three different income limits are used for the Section 502 and 504 programs. The National Office provides the income limits and updates the limits whenever they are revised. ***Adjusted income*** should be compared to the applicable income limit to determine the category in which each household falls. Income limits are as follows:

- The very low-income limit is established at approximately 50 percent of the median income for the area, adjusted for household size;
- The low-income limit is established at approximately 80 percent of the median income for the area, adjusted for household size; and
- The moderate-income limit is established by adding $5,500 to the low-income limit for each household size.

To receive payment assistance, borrowers not currently receiving subsidy must have adjusted income at or below the applicable low income limit. Borrowers currently receiving payment subsidies do not have to meet an income threshold.

B. Using FASTeller and the Income Worksheet to Compute Income

All three types of income are calculated in FASTeller using data entered by the Servicer. Attachment 4-A provides a sample Worksheet for Computing Income that helps the Servicer organize borrower information for data entry and provides instructions to calculate each type of income manually. Attachment 4-B contains a case study using the worksheet to illustrate the calculations.

4.8 SOURCES AND VERIFICATION OF INCOME *[7 CFR 3550.54]*

Attachment 4-C, Annual Income Sources and Attachment 4-D, Repayment Income Sources provide lists of potential sources of income and indicate whether each source is counted for repayment income and/or annual income. This section highlights and provides additional guidance about verifying income from some of those sources.

A. Income That is Never Counted

The following income is ***never*** counted for either repayment income or annual income:

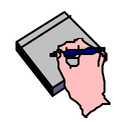
- Payments received on reverse amortization mortgages (these payments are considered a drawdown on the applicant's assets);

- Income received by live-in aides, regardless of whether the live-in aide is paid by the family or a social service program (family members cannot be considered live-in aides unless they are being paid by a health agency and have an address, other than a post office box, elsewhere);

- Income received by foster children or foster adults who live in the household; or

- Earned income of minors. (However, earned income from a spouse that is a minor; unearned income attributable to a minor, such as child support, Aid to Families with Dependent Children (AFDC) payments; and other benefits paid on behalf of a minor are counted.)

B. Verifying Sources and Amounts

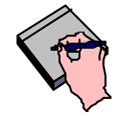


Each borrower must provide information about income, expenses, and household composition to enable the Agency to make income determinations. For payment subsidy renewals borrowers must report income information using *Form RD 3550-21* and provide the following documentation:

- Each adult household member listed on the certification must provide a copy of the latest Federal income tax return, and if the adult is employed, copies of the last two pay stubs. Where the amount of income verified through other means differs significantly from the last tax return, the borrower or employer, as appropriate, should be contacted to ascertain the correct income.

- Each adult household member must sign a copy of *Form RD 3550-1, Authorization to Release Information*.

- Any member that receives income from nonemployment sources such as pensions, social security, worker's compensation, alimony, or child support must provide a copy of the latest award letter or other documentation of the income received from that source.



The Servicer must review the information provided by the household and determine if any additional verification is required. Attachment 4-E describes methods that can be used to verify various types of information when verification is required. Written verifications should be provided by third parties when the servicer determines that it is needed or when conducting quality control reviews. Oral verifications may be accepted if written verifications are not feasible but should be carefully documented. Appendix 2 contains several verification and certifications that may be used to verify various income and expenses.

C. Projecting Income for a 12-Month Period

Current income and family circumstances may be used to estimate the household's income over the next 12 months, unless there is verifiable evidence of a likely change in circumstances or historical information does not support the current income. For example, if one of the household members works overtime in the winter, and the income is being verified in the summer, historical overtime will be used to project income. Historical information may also be used to estimate income that is anticipated to be received for less than 12 months. For example, if one of the household members is a seasonal worker, the income attributable to that worker should be based upon past history, rather than annualizing current income.

> **Example - Annualizing Short-Term Income**
>
> Assume a family member who currently has no income, in the past, has had seasonal income during the summer months and earned on the average $4,000 during that time. The Servicer should confirm with the borrower that the same seasonal pattern is expected and use historical data to project income for the coming 12 months.

D. Income of Temporarily Absent Family Members

Household members may be temporarily absent from the household for a variety of reasons, such as temporary employment or students who live away from home during the school year. The income of these household members is considered when computing annual income and, if the person is a party to the note, for repayment income.

> **Example - Temporarily Absent Member**
>
> James Brown is working on a construction job on the other side of the State and comes home every other weekend. He earns $600/week and uses approximately one-third of that amount for temporary living expenses. The full amount of the income earned would be counted for both repayment and annual income.

If an absent person is not considered a member of the household and is not a party to the note, income attributable to the person should not be counted, and the person should not be considered when determining deductions for adjusted income and determining which income limit to use.

E. Wage Matching

In States where the Agency has the legal authority to do wage matching, the Loan Originator will use wage matching to verify income for 5 percent of those households that receive *Form 1944-59, Certificate of Eligibility.* The wage matching request should include all adult members of the household, whether or not they have reported taxable income. If the State does not have sufficient resources to conduct all required wage matching, the State Director should request that the Deputy Administrator, Single Family Housing, authorize a lower percentage.

If the wage matching information does not correspond closely with the income reported by the household, the Loan Originator should discuss the discrepancies with the applicant and adjust the household's income, as appropriate.

4.9 CALCULATING INCOME FROM ASSETS

During the loan origination process, borrower assets are assessed to determine whether the borrower will be required to make a cash contribution. All assets and their real or imputed income are also considered when determining a borrower's eligibility for payment subsidy and the amount of subsidy during the origination process. After loan origination, only income from assets identified on the borrower's most recent income tax return will be used to determine income for borrowers requesting new or renewed payment subsidy. Borrowers selected for in-depth quality control reviews will be required to provide sufficient information about household assets to enable the Servicer to complete the review. *Form RD 1944-62, Request for Verification of Deposit,* provides basic information and two certification forms, Verification of Pensions and Annuities and Certification of Disposition of Assets, can provide additional information about the borrower's assets. For the purpose of computing annual income, the income from assets of all household members is considered.

4.10 Calculating ANNUAL AND ADJUSTED Income *[7 CFR 3550.54 (B) AND (C)]*

Annual income is used as a base to compute adjusted income. Income of all household members, not just parties to the note, must be considered when computing annual income. Attachment 4-C must be used to determine which sources of income to count and which to exclude.

Adjusted income is calculated by subtracting from annual income any of five deductions that apply to the household. Not all households are eligible for all deductions. Exhibit 4-4 summarizes these deductions. The remainder of this paragraph provides guidance on determining whether a family is eligible for each deduction and verifying and calculating these amounts. Part II of the Worksheet for Computing Income in Attachment 4-B illustrates the calculation of annual income and the use of these deductions to compute adjusted income.

Exhibit 4-4
Allowable Deductions from Annual Income

Deduction	Elderly Households	Nonelderly Households
Dependent Deduction	Yes	Yes
Child Care Expenses	Yes	Yes
Elderly Household	Yes	No
Medical Expenses	Yes	No
Disability Assistance	Yes	Yes

A. Dependent Deduction

A $480 deduction from annual income is made for each household member who qualifies as a dependent. Dependents are members of the family who are not the head, spouse, or other party to the note and who are age 17 or younger, an individual with a disability, or a full-time student.

B. Child Care Expenses

Reasonable unreimbursed child care expenses for the care of children age 12 and under are deducted from annual income if: (1) the care enables a family member to work or go to school; (2) no other adult household member is available to care for the children; and (3) in the case of child care that enables a family member to work, the expenses deducted do not exceed the income generated by that household member. If the child care provider is a household member, the cost of the children’s care cannot be deducted.

To qualify for the deduction, the borrower must:

- Identify the children who are receiving the child care and the family member who can work or go to school as a result of the care;
- Demonstrate that there is no adult household member available to care for the children;
- Identify the child care provider, the hours of child care provided, and the costs; and
- If the expenses enable a family member to go to school, identify the educational institution. The family member need not be a full-time student.

> **Verification of Child Care Expenses**
>
> The child care hours must parallel the hours the family member works or goes to school. Appendix 2 provides a format borrowers can use to document child care. Other acceptable formats include a letter on the child care provider's letterhead or a copy of a signed child care contract.

C. Elderly Household Deduction

A single $400 deduction is subtracted from annual income for any elderly household. To be considered an elderly household, the head of household, spouse, or sole member of a family who is party to the note must be: (1) 62 years of age or older; or (2) an individual with a disability.

In the case of a family where the deceased borrower or spouse was at least 62 years old or an individual with disabilities, the surviving household shall continue to be classified as an "elderly household" for the purposes of determining adjusted income if:

- At the time of death of the deceased family member, the dwelling was financed by the Agency;
- The surviving household member occupied the dwelling with the deceased family member at the time of death; and
- The surviving spouse (if any) has not remarried.

D. Care of Household Members

Reasonable expenses for the care of an individual with disabilities in excess of 3 percent of annual income may be deducted if the expenses:

- Enable the individual with disabilities or another family member to work;
- Are not reimbursable from insurance or any other source; and
- Do not exceed the amount of income earned by the person who is able to work as a result of the expenses.

Typical Disability Assistance Expenses

- Care attendant to assist an individual with disabilities with activities of daily living directly related to permitting the individual, or another family member to work.
- Special apparatus, such as wheelchairs, ramps, adaptations to vehicles or work place equipment, if directly related to permitting the individual with disabilities or another family member to work.

To qualify for this deduction, borrowers must identify the individual with a disability. *Form RD 1944-4, Certification of Disability or Handicap* should be used to request verification of the individual's disability from a physician or other medical professional.

Typical Medical Expenses

- Services of physicians or other health care providers
- Services of hospitals or other health care facilities
- Medical premiums
- Prescription and nonprescription medicine
- Dental expenses
- Eyeglasses and eye examinations
- Medical or health products or apparatus (hearing aids, wheel chairs, etc.)
- Live-in or periodic medical care (e.g., visiting nurses or care attendants)
- Periodic payments on accumulated medical bills

E. Deduction for Medical Expenses (for Elderly Households Only)

Medical expenses may be deducted from annual income for elderly households if the expenses: (1) will not be reimbursed by insurance or another source; and (2) when combined with any disability assistance expenses are in excess of 3 percent of annual income. To be considered an elderly household the head of household, spouse, or sole family member who is party to the note must be 62 years of age or older, or an individual with a disability.

If the household qualifies for the medical expenses deduction, expenses of the entire family are considered. For example, if a household included the head (grandmother, age 64), her son (age 37), and her granddaughter (age 6), the medical expenses of all three family members would be considered.

One of the most challenging aspects of determining allowable medical expenses is estimating a household's medical expenses for the coming year. While some anticipated expenses can be documented easily (for example, Medicare or other health insurance premiums and ongoing prescriptions), others need to be estimated. The Servicer should use historical information about medical bills to estimate future expenses. However, the estimates should be realistic. For example, if the household has a significant medical bill, the Servicer would count only that portion of the bill that is likely to be paid during the coming year.

Example - Calculating the Medical Expense Deduction

The Jensons are an elderly household with annual income of $25,000 and anticipated medical expenses of $3,000 that are not covered by insurance or another source. The allowable medical expenses would be:

Total Medical Expenses	$3,000
(less) 3% Annual Income ($25,000 x 0.03)	-$ 750
Allowable Medical Expenses	$2,250

ATTACHMENT 4-A

SAMPLE WORKSHEET FOR COMPUTING INCOME

PART I: REPAYMENT INCOME CALCULATION

1. Name	2. Identification

ASSETS (Consider only nonretirement assets and retirement assets that can be withdrawn by parties to the note):

Family Member	Asset Description	Market Value	Current Cash Value	Actual Income from Assets
3. Total		3a.	3b.	3c.
4. Assets to be used as down payment		4a.	4b.	4c.
5. Assets/income to be considered for repayment income purposes (Item 3 minus Item 4)		5a.	5b.	5c.

ANTICIPATED REPAYMENT INCOME (Consider only income of parties to the note using Attachment 4-D):

Family Member	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
					Enter line 5c in Box e below
6. Totals	a.	b.	c.	d.	e.

7. Enter total of items 6a. through 6e. This is <u>Repayment Income</u>.	7.

PART II: ANNUAL AND ADJUSTED INCOME CALCULATION

1. Name	2. Identification

FAMILY ASSETS:(Consider assets of all household members):

Family Member	Asset Description	Current Cash Value	Actual Income from Assets
3. Total Assets		3a.	3b.
4. Assets/income to be used as down payment (from Part I)		4a.	4b.
5. Assets/income to be considered for annual income (Item 3 minus Item 4)		5a.	5b.
6. If Line 5a is greater than $5,000, multiply Line 5a. by ____ (passbook rate) and enter result here; otherwise, leave blank.			6.

ANTICIPATED ANNUAL INCOME (Consider income of all household members using Attachment 4-C):

Family Member	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
					Enter the greater of Lines 5b or 6 in box e below
7. Totals	a.	b.	c.	d.	e.

8. Enter total of items 7a. through 7e. This is Annual Income.	8.

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ANNUAL AND ADJUSTED INCOME CALCULATION (Continued)

9.	Annual income (enter line 8 from Part II).		9.
10.	Number of family members (except parties to the note or their spouses) under 18, disabled, or full-time students.	10.	
11.	Multiply line 10 by 480.		11.
12.	Child care deduction (reasonable expenses for care of children 12 and under that enable family member to work or further education).		12.
13.	Elderly household deduction (enter $400 if the head of household or spouse who is party to the note is 62 or older or an individual with disabilities).		13.
14.	Disability assistance expenses (reasonable expenses for disabled family member that enable a family member to work).	14.	
15.	Medical expenses in excess of insurance reimbursement (elderly households only).	15.	
16.	3% of annual income (line 9 x 0.03).	16.	
17.	Allowable disability assistance/medical expenses (line 14 + line 15 minus line 16).		17.
18.	Total deductions (add lines 11, 12, 13 and 17).		18.
19.	Adjusted income (line 9 minus line 18).		19.

ATTACHMENT 4-B

CASE STUDY

SECTION 1 -- BACKGROUND

HOUSEHOLD MEMBERS

Name	Age	Relationship	Comments
Jonathan Smith	44	Head of household	Employed, party to note
Sally Smith	44	Spouse	Employed, party to note
Bernice Smith	70	Jonathan's mother	Retired, party to note
Frank Smith	15	Son	Disabled

HOUSEHOLD INCOME, ASSETS AND EXPENSES

Wages

Jonathan: $250/week
Sally: $5.50/hour 30 hours/week

Other Income and Assets

Bernice receives $400/month Social Security benefits and has $700 in a noninterest bearing checking account.
Jonathan/Sally have a savings account balance $4,600, annual income $161.
Jonathan/Sally have a checking account balance (2 month average) $300, noninterest bearing account.

Expenses

Medical expenses not reimbursed, $1,500.
Care expenses for Frank while Sally works, $75/week.

INCOME LIMIT INFORMATION

Income Range	Number of Persons					
	1	2	3	4	5	6
Adjusted Median Income	$19,000	$23,000	$25,000	$27,000	$29,000	$31,000
Low-Income	$15,200	$18,400	$20,000	$21,600	$23,200	$24,800
Very Low-Income	$ 9,500	$11,500	$12,500	$13,500	$14,500	$15,500

SECTION 2 -- CALCULATION WORKSHEET

PART I: REPAYMENT INCOME CALCULATION

1. Name Jonathan Smith	2. Identification

ASSETS (Consider only nonretirement assets and retirement assets that can be withdrawn by parties to the note):

Family Member	Asset Description	Market Value	Current Cash Value	Actual Income from Assets
Jonathan	Savings Account	$4,600	$4,600	$161
Jonathan	Checking Account	$ 300	$ 300	-
Bernice	Checking Account	$ 700	$ 700	
3. Total		3a. $5,600	3b. $5,600	3c. $161
4. Assets to be used as down payment		4a.	4b.	4c.
5. Assets/Income to be considered for repayment income purposes (Item 3 minus Item 4)		5a. $5,600	5b. $5,600	5c. $161

ANTICIPATED REPAYMENT INCOME (Consider only income of parties to the note using Attachment 4-D):

Family Member	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Jonathan	$250 x 52 = $13,000				
Sally	$5.50 x 30 x 52 = $8,580			$	Enter line 5c
Bernice		$400 x 12 = $4800			in box e below
6. Totals	a. $21,580	b.$4,800	c.	d.	e $161

7. Enter total of items 6a. through 6e. This is <u>Repayment Income</u>.	7. $26,541

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PART II: ANNUAL INCOME CALCULATION

1. Name Jonathan Smith	2. Identification:

FAMILY ASSETS:(Consider assets of all household members):

Family Member	Asset Description	Current Cash Value	Actual Income from Assets
Jonathan	Savings Account	$4,600	$161
	Checking Account	$ 300	-
Bernice	Checking Account	$ 700	
			-
3. Total Net Family Assets		3a.$5,600	3b. $161
4. Assets/Income to be used as down payment (from Part I)		4a.	4b.
5. Assets/Income to be considered for annual income (Item 3 minus Item 4)		5a. $5,600	5b. $161
6. If Line 5a is greater than $5,000, multiply Line 5a. by <u>3.5%</u> (passbook rate) and enter result here; otherwise, leave blank.			6. $196

ANTICIPATED ANNUAL INCOME (Consider income of all household members using Attachment 4-C):

Family Member	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Jonathan	$250 x 52 = $13,000				Enter the
Sally	$5.50 x 30 x 52 = $8,580				greater of
Bernice		400 x 12 = $4,800			Lines 5b or 6
					in box e
					below
7. Totals	a. $21,580	b. $4,800	c.	d.	e. $196

8. Enter total of items 7a. through 7e. This is <u>Annual Income</u>.	8. $26,576

ANNUAL AND ADJUSTED INCOME CALCULATION (Continued)

9.	Annual income (enter line 8 from Part II).		9. $26,576
10.	Number of family members (except parties to the note or their spouses) under 18, disabled, or full-time students.	10. 1	
11.	Multiply line 10 by 480.		11. $ 480
12.	Child care deduction (reasonable expenses for care of children 12 and under that enable family member to work or further education).		12.
13.	Elderly household deduction (enter $400 if the head of household or spouse who is party to the note is 62 or older or an individual with handicaps).		13. $ 400
14.	Disability assistance expenses (reasonable expenses for disabled family member that enable a family member to work).	14. $3,900	
15.	Medical expenses in excess of insurance reimbursement (elderly households only).	15. $1,500	
16.	3% of annual income (line 9 x 0.03).	16. $ 797	
17.	Allowable disability assistance/medical expenses. (line 14 + line 15 minus line 16).		17. $4,603
18.	Total deductions (add lines 11, 12, 13 and 17).		18. $5,483
19.	Adjusted income (line 9 minus line 18).		19. $21,093

SECTION 3 -- COMMENTS

ANNUAL AND REPAYMENT INCOME CALCULATIONS

For Annual Income	For Repayment Income
• Count Jonathan's wages	• Count Jonathan's wages
• Count Sally's wages	• Count Sally's wages
• Count Bernice's Social Security	• Count Bernice's Social Security
• Count <u>imputed</u> income from assets	• Count <u>actual</u> income from assets

ASSET CALCULATIONS

- For annual income, the calculation of imputed income from assets must be made if assets exceed $5,000. In this case, the imputed income are greater than the actual income from assets. Therefore, the imputed income amount is included in annual income.
- For repayment income, only the actual income from assets is used..

ADJUSTED INCOME CALCULATION

<u>Dependent Deduction</u>

One dependent deduction is given for Frank who is under the age of 18.

<u>Child Care Deduction</u>

The cost of care for Frank cannot be deducted as child care because Frank is 15 years old. Child care expenses may be approved only if the child is under the age of 13.

<u>Elderly Household Deduction</u>

Because Bernice is a party to the note, this is an elderly family.

<u>Medical Expense Deduction</u>

Medical expenses for all family members can be considered because this is an elderly household.

<u>Disability Assistance Expenses</u>

Although expenses for the care of Frank cannot be deducted as child care, they may be considered as disability assistance expenses if the care enables a family member to work. Since the care provided enables Sally to work, the amount by which these expenses in combination with medical expenses exceeds 3 percent of annual income may be deducted.

ATTACHMENT 4-C

ANNUAL INCOME SOURCES

I. SOURCES OF INCOME COUNTED FOR ANNUAL INCOME

For annual income, consider income from the following sources that are attributable to any household member.

(1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services of all adult members of the household. If a cost of living allowance or a proposed increase in income has been estimated to take place on or before loan approval, loan closing, or the effective date of the payment assistance agreement, it will be included as income. For annual income count only the first $480 of earned income from adult full-time students who are not the head or spouse.

(2) The net income from the operation of a farm, business, or profession. The following provisions apply:

> (i) Expenditures for business or farm expansion, capital improvements, or payments of principal on capital indebtedness shall not be used as deductions in determining income. A deduction is allowed in the manner prescribed by Internal Revenue Service (IRS) regulations only for interest paid in amortizing capital indebtedness.
>
> (ii) Farm and nonfarm business losses are considered "0" in determining annual income.
>
> (iii) A deduction, based on straight line depreciation, is allowed in the manner prescribed by IRS regulations for the exhaustion, wear and tear, and obsolescence of depreciable property used in the operation of a trade, farm, or business by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight line depreciation.
>
> (iv) Any withdrawal of cash or assets from the operation of a farm, business, or profession will be included in income, except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a member of the household.
>
> (v) A deduction is allowed for verified business expenses, such as lodging, meals, and fuel, for business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement.

(vi) For home-based operations such as child care, product sales, and the production of crafts, housing related expenses for the property being financed such as mortgage interest, real estate taxes, insurance, and utilities, which may be claimed as business expense deductions for income tax purposes, will not be deducted from annual income.

(3) Interest, dividends, and other net income of any kind from real or personal property, including:

(i) The share received by adult members of the household from income distributed from a trust fund.

(ii) Any withdrawal of cash or assets from an investment except to the extent the withdrawal is reimbursement of cash or assets invested by a member of the household.

(iii) Where the household has net family assets in excess of $5,000, the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by the Agency.

(4) The full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. However, deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in prospective monthly amounts are not counted.

(5) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay.

(6) Public assistance except as indicated in Part II, item (15) of this attachment.

(7) Periodic allowances, such as:

(i) Alimony and child support awarded in a divorce decree or separation agreement, unless the borrower certifies the payments are not received, and the borrower provides documentation to the Agency that a reasonable effort has been made to collect the payments through the official entity responsible for enforcing such payments; or

(ii) Recurring monetary gifts or contributions from an organization or person who is not a member of the household.

(8) All regular pay, special pay (except for persons exposed to hostile fire), and allowances of a member of the armed forces who is the borrower or spouse, whether or not that family member lives in the home.

(9) Employer provided fringe benefits which are included as taxable income on an employee's pay statement or W-2 statement.

II. SOURCES OF INCOME EXCLUDED FROM ANNUAL INCOME

The following sources are never considered when calculating annual income.

(1) Income from the employment of persons under 18 years of age, except parties to the note and their spouses.

(2) Income of live-in aides and income directly received by foster children or foster adults.

(3) Payments received for the care of foster children or foster adults (usually individuals with disabilities, unrelated to the borrower, who are unable to live alone).

(4) Temporary, nonrecurring, or sporadic income (including gifts).

(5) Lump-sum additions to family assets such as inheritances, capital gains, insurance payments included under health, accident, hazard, or worker's compensation policies, and settlements for personal or property losses.

(6) Amounts that are granted specifically for, or in reimbursement of, the cost of medical expenses.

(7) Earnings in excess of $480 for each full-time student 18 years old or older, except parties to the note and their spouses.

(8) Reparation payments paid by a foreign government arising out of the Holocaust. If any borrower for an Agency loan was deemed ineligible because the borrower's income exceeded the low-income limit because of the borrower's Nazi persecution benefits, the Loan Approval Official should notify the borrower to reapply for a loan.

(9) Any earned income tax credit.

(10) Adoption assistance payments in excess of $480 per adopted child.

(11) Deferred periodic payments of supplemental security income and Social Security benefits that are received in a lump sum.

(12) The amount of student financial assistance received by household members.

(13) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit.

(14) Amounts paid by a State agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.

(15) Any other revenue which a Federal statute exempts will not be considered income or used as a basis for determining eligibility for an Agency loan, payment assistance, or denying or reducing Federal financial assistance or benefits to which the recipient would otherwise be entitled. Additional financial assistance which is considered exempt income under Federal statutes includes:

> (i) The imminent danger duty pay to a service person borrower or spouse away from home and exposed to hostile fire.
>
> (ii) Payments to volunteers under the Domestic Volunteer Service Act of 1973, including, but not limited to:
>
> > (a) National Volunteer Antipoverty Programs which include Volunteers In Service To America (VISTA), Peace Corps, Service Learning Programs, and Special Volunteer Programs.

(b) National Older American Volunteer Programs for persons age 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Programs to Assist Small Business and Promote Volunteer Service to Persons with Business Experience, Service Corps of Retired Executives (SCORE), and Active Corps of Executives (ACE).

(iii) Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the "In Re Agent Orange" product liability litigations, M.D.L. No. 381 (E.D.N.Y.).

(iv) Payments received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act."

(v) Income derived from certain submarginal land of the United States that is held in trust for certain American Indian tribes.

(vi) Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance Program.

(vii) Payments received from the Job Training Partnership Act.

(viii) Income derived from the disposition of funds of the Grand River Band of Ottawa Indians.

(ix) The first $2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an American Indian tribe by the Secretary of Interior.

(x) Payments received from programs funded under Title V of the Older Americans Act of 1965.

(xi) The value of the allotment provided to an eligible household under the Food Stamp Act of 1977.

(xii) Any other income which is exempted under Federal statute.

(16) Payments received on reverse amortization mortgages (these payments are considered a drawdown on the borrower's assets).

(17) Employer provided fringe benefits which are not included as taxable income on an employee's pay statement or W-2 statement.

ATTACHMENT 4-D

REPAYMENT INCOME SOURCES

I. SOURCES OF INCOME COUNTED FOR REPAYMENT INCOME

For repayment income, consider income from the following sources that are: (1) attributable to parties to the note; and (2) represent a source of dependable income. Items marked with an asterisk are also counted for annual income.

*(1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services of all adult members of the household. If a cost of living allowance or a proposed increase in income has been estimated to take place on or before loan approval, loan closing, or the effective date of the payment assistance agreement, it will be included as income. For annual income count only the first $480 of earned income from adult full-time students who are not the head or spouse.

*(2) The <u>net</u> income from the operation of a farm, business, or profession. The following provisions apply:

> (i) Expenditures for business or farm expansion, capital improvements, or payments of principal on capital indebtedness shall not be used as deductions in determining income. A deduction is allowed in the manner prescribed by Internal Revenue Service (IRS) regulations only for interest paid in amortizing capital indebtedness.
>
> (ii) Farm and nonfarm business losses are considered "0" in determining annual income.
>
> (iii) A deduction, based on straight line depreciation, is allowed in the manner prescribed by IRS regulations for the exhaustion, wear and tear, and obsolescence of depreciable property used in the operation of a trade, farm, or business by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight line depreciation.
>
> (iv) Any withdrawal of cash or assets from the operation of a farm, business, or profession will be included in income, except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a member of the household.
>
> (v) A deduction is allowed for verified business expenses, such as lodging, meals, and fuel, for business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement.

(vi) For home-based operations such as child care, product sales, and the production of crafts, housing related expenses for the property being financed such as mortgage interest, real estate taxes, insurance and utilities, which may be claimed as business expense deductions for income tax purposes, will not be deducted from annual income.

*(3) Interest, dividends, and other net income of any kind from real or personal property, including:

(i) The share received by adult members of the household from income distributed from a trust fund.

(ii) Any withdrawal of cash or assets from an investment except to the extent the withdrawal is reimbursement of cash or assets invested by a member of the household.

(iii) Where the household has net family assets in excess of $5,000, the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by the Agency.

*(4) The full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. However, deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in prospective monthly amounts are not counted.

*(5) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay.

*(6) Public assistance.

*(7) Periodic allowances, such as:

(i) Alimony and child support awarded in a divorce decree or separation agreement, unless the borrower certifies the payments are not received, and the borrower provides documentation to the Agency that a reasonable effort has been made to collect the payments through the official entity responsible for enforcing such payments; or

(ii) Recurring monetary gifts or contributions from someone who is not a member of the household.

*(8) All regular pay, special pay (except for persons exposed to hostile fire), and allowances of a member of the armed forces who is the borrower or spouse, whether or not that family member lives in the home.

(9) Adoption assistance payments in excess of $480 per adopted child.

(10) Payments received for the care of foster children or foster adults (usually individuals with disabilities, unrelated to the borrower, who are unable to live alone).

(11) Reparation payments paid by a foreign government arising out of the Holocaust. If any borrower for an Agency loan was deemed ineligible because the borrower's income exceeded the low income limit because of the borrower's Nazi persecution benefits, the Agency Loan Approval Official should notify the borrower to reapply for a loan.

(12) Any earned income tax credit.

(13) The amount of student financial assistance received by household members except for tuition, fees, books, equipment, materials, and transportation.

(14) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit.

(15) Any other revenue which a Federal statute exempts will not be considered repayment income. This includes:

(i) The imminent danger duty pay to a service person borrower or spouse away from home and exposed to hostile fire.

(ii) Payments to volunteers under the Domestic Volunteer Service Act of 1973, including, but not limited to:

(a) National Volunteer Antipoverty Programs which include Volunteers In Service To America (VISTA), Peace Corps, Service Learning Programs, and Special Volunteer Programs.

(b) National Older American Volunteer Programs for persons age 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Programs to Assist Small Business and Promote Volunteer Service to Persons with Business Experience, Service Corps of Retired Executives (SCORE), and Active Corps of Executives (ACE).

(iii) Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the "In Re Agent Orange" product liability litigations, M.D.L. No. 381 (E.D.N.Y.).

(iv) Payments received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act."

(v) Income derived from certain submarginal land of the United States that is held in trust for certain American Indian tribes.

(vi) Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance Program.

(vii) Payments received from the Job Training Partnership Act.

(viii) Income derived from the disposition of funds of the Grand River Band of Ottawa Indians.

(ix) The first $2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an American Indian tribe by the Secretary of Interior.

(x) Payments received from programs funded under Title V of the Older Americans Act of 1965.

(xi) The value of the allotment provided to an eligible household under the Food Stamp Act of 1977.

(xii) Any other income which is exempted under Federal statute.

(16) Amounts paid by a State Agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.

(17) Payments received on reverse amortization mortgages (these payments are considered a drawdown on the applicant's assets).

II. SOURCES OF INCOME EXCLUDED FROM REPAYMENT INCOME

The following sources are never considered when calculating annual income.

(1) Income from the employment of persons under 18 years of age, except parties to the note and their spouses.

(2) Income of live-in aides and income directly received by foster children or foster adults.

(3) Payments received for the care of foster children or foster adults (usually individuals with disabilities, unrelated to the borrower, who are unable to live alone).

(4) Temporary, nonrecurring, or sporadic income (including gifts).

(5) Lump-sum additions to family assets such as inheritances, capital gains, insurance payments included under health, accident, hazard, or worker's compensation policies, and settlements for personal or property losses.

ATTACHMENT 4-E

SUMMARY OF METHODS OF VERIFICATION FOR FREQUENTLY REPORTED INCOME SOURCES

Type of Income or Verification Source	Verification Methods
Income	
Employment Certification	The borrower must sign *Form RD 3550-4, Employment Certification/Payment Assistance* indicating their current employment status and agree to inform the Agency immediately, in writing, if their employment status changes.
Verification of Employment	The borrower must list all household members on the application and indicate their employment status. The Servicer sends *Form RD 1910-5, Request for Verification of Employment* to each employer for verification.
Self-employed	The borrower must provide current documentation of income and expenses which cannot be older than the previous fiscal year. The Servicer must compare the income and expenses information provided by the borrower with the tax return for discrepancies.
Unemployment	The Servicer should contact the former employer, if applicable, to confirm that the borrower is no longer employed.
Social Security Income	Borrowers must provide a copy of the most recent award or benefit letter prepared and signed by the authorizing agency to verify Social Security, pension, severance pay, worker's compensation, and disability income. If the date of the letter is not within the last 12 months, require the borrower to submit one of the following: -- Cost-of-living (COLA) payment notice; -- Social Security Benefits Statement; or -- Notice of Change in Benefits.
Unemployment Benefits	Borrowers must provide the most recent award or benefit letter prepared and signed by the authorizing agency to verify the unemployment income or other payments in lieu of income such as worker's compensation or severance pay.

Type of Income or Verification Source	Verification Methods
Public Assistance	Borrowers must provide the most recent award or benefit letter prepared and signed by the authorizing agency to verify the amount of public assistance received.
Alimony or Child Support Payments	The borrower must provide a copy of the divorce decree, separation agreement, or other document indicating the amount of the required payments as well as reporting the amount received during the past 12 months. If the borrower reports that the specified amount is not being received the borrower must have requested the assistance of the State or local entity responsible for enforcing payment.
Support for Foster Children or Adults	The borrower may include payments received for the care of foster children or foster adults in the calculation of repayment ability. Documentation must be provided indicating the amount of money received for the care of foster children or adults, and the anticipated period of time the support will be provided.
Income Tax Return	The tax return reports last year's income, rather than the current income the borrower is asked to report on the application. Even so, it can serve as a valuable verification tool. Check the reported income, dependents, and assets with the information provided on the application. Identify and clarify with the borrower any information that appears inconsistent with the application.
Deposit Verification	The Servicer sends *Form RD 1944-62, Request for Verification of Deposit* to financial institutions to verify cash deposits on hand and average checking balances. Other acceptable forms of documentation include copies of year-end statements for mutual funds or 401(K) accounts.
Verification of Gifts	Monetary gifts may be included in calculating a borrower's repayment ability if the donor does not expect to be repaid for the gift. The Servicer must send the donor *Form RD 3550-2, Request for Verification of Gift/Gift Letter* to verify whether the gift must be repaid and whether the funds have already been transferred.

Type of Income or Verification Source	Verification Methods
Disposition of Assets	Borrowers must certify whether an asset has been disposed of for less than fair market value. Assets disposed of for less than fair market value due to bankruptcy, divorce, or separation are not included.
Deductions	
Dependent Minor	No verification is required. The borrower must simply indicate the number of minors on the application. The dependent must qualify for the deduction each time a certification is made.
Full-time Student Status	The borrower may be eligible to receive a deduction for dependents attending school full-time. The borrower must provide documentation from the school that the dependent is enrolled as a full-time student.
Child Care Expenses	Reasonable child care expenses may be deducted from annual income. To qualify for the deduction, the borrower must: -- Identify the children receiving the child care and the family member who can work or go to school as a result of the care; -- Demonstrate that there is no adult household member available to care for the children; -- Identify the child care provider, the hours of care provided, and the costs (e.g., letter on the child care provider's letterhead or a copy of a signed child care contract); and -- Identify the educational institution and provide documentation of enrollment (if appropriate).
Disability Expenses	To qualify for disability deductions, the borrower must describe the nature of the expense, provide documentation of the costs, and demonstrate that the expense enables a family member to work.
Medical Expenses	Elderly households are eligible to receive medical deductions for the entire family. To receive the deduction, the borrower must provide: -- Documentation of ongoing prescriptions and the costs; -- Agreements for accumulated medical bills; and -- Medicare or other health insurance premiums.